

# Fiscal Note

*Fiscal Services Division*



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**HF 641** – Broadband Connections for Iowa Farms, Schools, and Communities (LSB1592HZ)  
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Fiscal Note Version – New

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## **Description**

**House File 641** relates to broadband facilitation, coordination, taxation, and access. The Bill creates a Broadband Grant Program and a broadband infrastructure property tax exemption. Division II creates a Broadband Grant Fund and specifies that grants of up to 10.0% of qualified installation costs may be approved. The Bill does not provide State funding for the grant program.

Division III of this Bill creates a property tax exemption for qualified broadband infrastructure. Under the provisions of the Bill, qualifying broadband infrastructure installations completed on or after July 1, 2015, are 100.0% exempt from property tax for a period of 10 years. To qualify for the exemption, the installation must take place within a targeted service area defined as a U.S. Census Bureau census block where broadband service at or above 25 megabits per second download speed and three megabits per second upload speed is not currently available.

## **Background**

Like all property in Iowa that is not otherwise exempt from property tax, broadband infrastructure is assessed and taxed for property tax purposes and is subject to the property tax levies applicable to the location of the infrastructure. Broadband infrastructure is typically installed and owned by utility companies that provide telephone and/or internet service to individuals and businesses. The Iowa Department of Revenue or local assessors assess the companies and assign the property value subject to property tax.

The availability of broadband at various upload and download speeds currently varies across the State. In a report released February 4, 2015, the Federal Communications Commission concluded that 75.0% of Iowans have access to 25 megabit internet service, with urban access at 95.0% and rural access at 40.0%.

## **Assumptions**

- Broadband infrastructure expenditures that occur within targeted service areas and therefore benefit from the property tax exemption created in this Bill will total \$135.0 million per year and fall into three expenditure categories:
  1. Broadband infrastructure expenditures that will not occur without the grant funds and property tax incentives created in this Bill (\$45.0 million annually.)
  2. Broadband infrastructure expenditures that will occur elsewhere in the State, but as a result of the grants and property tax benefits available in the targeted services areas, occurs within a targeted service area instead of elsewhere in Iowa (\$45.0 million annually.)
  3. Broadband infrastructure expenditures that will occur within targeted service areas even without the grant and property tax benefits created in this Bill (\$45.0 million annually.)
- The property tax impact of this Bill only includes the property tax exemptions resulting from numbers two and three above. The projected fiscal impact does not include the impact of the exemption for installations that occur as a result of item one.
- In a September 2014 Research Brief, USTelecom (The Broadband Association) reported U.S. broadband providers invested \$75.0 billion in network infrastructure in 2013. An

amount equal to 0.5% of the U.S. investment (\$375.0 million) is assumed to have taken place in Iowa. This level of U.S. and Iowa broadband investment is assumed for all future years.

- Of the assumed annual \$375.0 million Iowa broadband investment, \$45.0 million (12.0%) is assumed to take place in targeted services areas with or without this Bill, and another \$45.0 million is assumed to be invested in targeted service areas instead of other areas of the State where the property tax exemption is not available. Combined, this represents \$90.0 million in broadband investment that will qualify for the property tax exemption, but the investment will occur within the State with or without the property tax incentive.
- An additional \$45.0 million in annual broadband investment is assumed to occur within the targeted service areas that will not occur within Iowa if not for the property tax exemption and grants provided in the Bill. This investment is not included in the fiscal impact calculation as it is assumed to be property value that will not occur without the incentives in this Bill.
- With an initial implementation date of July 1, 2015, the first-year impact (assessment year 2016 and FY 2018) is assumed to be 50.0% of a full year.
- Once put in place, for property tax purposes broadband infrastructure is assumed to depreciate at an annual rate of 6.67% of its installed value.
- The tax exemption first applies to property installed on or after July 1, 2015, so the first assessment year impacted is AY 2016 (FY 2018.)
- The FY 2015 Statewide property tax rate for utility property is \$28.25 per \$1,000 of assessed value. The State school aid basic levy represents \$5.40 of that Statewide rate. The \$28.25 and \$5.40 rates are assumed to remain the same in future fiscal years.

### **Fiscal Impact**

The property tax exemption for qualified broadband investment in targeted areas of Iowa will reduce local property tax revenue and increase the State General Fund appropriation for school aid. This fiscal impact is the result of exempting property investment that is assumed to occur with or without the incentives in this Bill. No portion of the estimated fiscal impact is the result of broadband investment that occurs as a result of the grants and tax incentives created in the Bill.

<b>Local Government and State Appropriation Impact</b>					
In Millions					
		Local Government Tax Revenue Reduction	State General Fund Appropriation Increase	Property Tax Reduction	
AY 2016	FY 2018	\$ 1.0	\$ 0.2	\$	1.2
AY 2017	FY 2019	3.0	0.7		3.7
AY 2018	FY 2020	4.9	1.2		6.1
AY 2019	FY 2021	6.6	1.6		8.2
AY 2020	FY 2022	8.2	1.9		10.1
AY 2021	FY 2023	9.6	2.3		11.9
AY 2022	FY 2024	10.9	2.6		13.5
AY 2023	FY 2025	12.1	2.9		15.0
AY 2024	FY 2026	13.1	3.1		16.2
AY 2025	FY 2027	14.0	3.3		17.3
AY 2026	FY 2028	14.7	3.5		18.2

To the extent that the Bill increases broadband investment in the State to a level higher than it will otherwise be, local governments may receive additional property tax dollars beginning in FY 2029.

**Sources**

USTelecom - The Broadband Association - Research Brief - Sept. 8, 2014

Federal Communications Commission Broadband Progress Report - Released Feb. 4, 2015

Department of Management Property Tax value and rate files

Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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